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Mexico

Grain and Feed

Annual Report

2006

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Report Highlights: Mexico's total imports of grain and feed will likely increase in MY 2006/07 due in part to a strong economy, and the resultant strong demand. Livestock production and feed consumption continue to expand, therefore, grain and feed import levels are projected to grow in the near future. Domestic production of corn, sorghum, and dry beans is also expected to increase. Total Mexican wheat production for MY 2006/07 (Jul-Jun) is forecast at 3.1 million metric tons due to the availability of water for irrigation in Mexico's wheat producing regions in the northwest and central plateau. Mexico's rice output for MY 2006/07 is forecast to remain unchanged from the previous year's revised estimate of 181,000 MT (milled), as a significant amount of acreage was shifted to more profitable crops, or left idle due to competitively priced foreign imports.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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SECTION I. SITUATION AND OUTLOOK

Corn

Corn production is forecast at 21.3 million metric tons (MMT) for MY 2006/07 (Oct-Sep), approximately 6 percent greater than the MY 2005/06 crop. This projected increase is attributed to an expansion of harvested area, and assumes normal weather conditions. Production estimates for MY 2004/05 and MY 2005/06 reflect the latest official Mexican government data. Imports are forecast to increase to 7.6 MMT based on strong demand from the feed and starch industries. Total corn consumption is forecast to increase to approximately 29.0 MMT in MY 2006/07, primarily driven by population growth (1.32 percent) and strong demand from the feed and starch industries. Domestic feed demand for MY 2006/07, for example, is forecast to increase 2.5 percent due to the dynamic performance of the livestock sector, and the expectation of affordable prices for corn. The total consumption estimates for MY 2004/05 and 2005/06 have remained unchanged. The structure of the 2006 NAFTA import quota (3.564 MMT for the United States) will continue as in 2005, with direct allocations to importers and industries by the Secretariat of Economy (SE), through the administrative procedures that were published in Mexico's Federal Register "*Diario Oficial"* (see MX5022 and MX4033).

Sorghum

MY 2006/07 (Oct-Sept) sorghum production is forecast to increase to 6.15 MMT. This increase is primarily driven by strong demand by the livestock sector. Production estimates for MY 2004/05 and MY 2005/06 have been revised downward to reflect the estimates of both official government data and private sector sources. Imports for MY 2006/07 are forecast to increase approximately 2 percent due to continued strong overall demand from feed millers and livestock producers. Private sector estimates indicate that Mexico's 2005 poultry meat production increased 5 percent over 2004, while pork and beef meat production increased approximately 2.02 percent. The MY 2004/05 and MY 2005/06 import estimates have been raised to 3.03 MMT and 3.63 MMT, respectively, reflecting final official data issued by the Secretariat of Economy (SE) and private sources.

Dry Edible Beans

The production estimates for MY 2005/06 (Oct-Sep) have been lowered to 866,000 MT due to dry conditions in the bean production regions that severely impacted the 2005 spring/summer crop. MY 2006/07 production is forecast to increase to approximately 1.250 MMT, assuming the resumption of normal weather conditions and an increase in harvested area. Imports are forecast to increase to 150,000 MT for MY 2006/07, largely driven by a need to rebuild stocks. FAS/Mexico adjusted import estimates upward for MY 2005/06 because of lower-than-previously estimated domestic production. The import estimate for MY 2004/05 has been revised upward based on end of the year data from the SE.

Wheat

The major wheat producing areas in Mexico are Sonora, Sinaloa, Guanajuato, and Baja California. These four states account for 65-70 percent of the spring-harvested wheat, producing mostly hard red winter wheat, but also some soft red winter, white, and durum wheats. The wheat crop harvested in the fall months in the central plateau states accounts for 30 to 35 percent of Mexico's total wheat production. This area produces mostly bread wheats.

Total Mexican wheat production for MY 2006/07 (Jul-Jun) is forecast at 3.1 MMT. This production is aided by the adequate availability of water for irrigation in Mexico's wheat

producing regions in the northwest, which is comprised of the principle durum wheat producing states of Sonora and Baja California. The bread wheat producing states of the central plateau in Mexico also report adequate irrigation water availability, thus improving production expectations for MY 2006/07.

The Mexican wheat flour industry is comprised of approximately 95 mills operating throughout the country. These mills are concentrated in two basic areas, those that are located in the consumption zones, and those that are located in the wheat production zones. These mills have a capacity of over 7.3 MMT/Year, however, they are currently processing roughly 4.8 MMT/Year. The origin of the wheat milled is approximately 60 percent imported and 40 percent domestic.

Rice

Figures cited in this report for planting, production, and consumption were obtained from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA). This agency collects data on almost all agricultural products, and generally updates their statistics on an annual basis. FAS/Mexico also consulted with rice producer associations and rice mills to verify many of the figures.

Rice production for MY 2006/07 is forecast to remain unchanged from the previous year's revised estimate of 181,000 MT (milled basis). In recent years a great deal of rice producing land in Veracruz and Campeche was shifted to more profitable crops, or left idle, due to highly competitive imports and low levels of government support. For many of the same reasons, production for MY 2005/06 is revised downward by 9.5 percent from our previous estimate. Rice output for MY 2004/05 is revised downward reflecting official data.

There are two main strategies for increasing U.S. rice consumption in Mexico. These are:
1). Increase total sales of rice in Mexico, regardless of the country of origin, and thereby increase sales of U.S. rice at a constant U.S. market share.
2). Capture market share away from domestic and foreign competitors.

The first method requires an increase in total consumption of rice in Mexico, and can be accomplished either through generic rice promotion efforts or through economic or population growth. The second method does not require increased total rice consumption in Mexico, but rather a shift of consumption to U.S. rice and away from the rice offered by domestic and other foreign sellers. Such a shift in market share requires more of a branded approach to promotion efforts.

SECTION II. STATISTICAL TABLES

PS&D CORN

PSD Table						
Country	Mexico					
Commodity	Corn				(1000 HA)(1000 MT)	
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2004		10/2005		10/2006	
Area Harvested	7755	7692	7200	6751	0	7300
Beginning Stocks	4372	4372	4996	4425	3791	3620
Production	22630	22052	20500	20050	0	21300
TOTAL Mkt. Yr. Imports	5921	5921	6700	7550	0	7600
Oct-Sep Imports	5921	5921	6700	7550	0	7600
Oct-Sep Import U.S.	5920	5920	0	7550	0	7600
TOTAL SUPPLY	32923	**32345**	32196	**32025**	3791	**32520**
TOTAL Mkt. Yr. Exports	27	20	5	5	0	5
Oct-Sep Exports	27	20	5	5	0	5
Feed Dom. Consumption	12600	12600	12900	12900	0	13220
TOTAL Dom. Consumption	27900	27900	28400	28400	0	29000
Ending Stocks	4996	4425	3791	3620	0	3515
TOTAL DISTRIBUTION	32923	**32345**	32196	**32025**	0	**32520**

PS&D SORGHUM

PSD Table						
Country	Mexico					
Commodity	Sorghum		(1000 HA)(1000 MT)			
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2004		10/2005		10/2006	
Area Harvested	1700	1692	1700	1558	0	1750
Beginning Stocks	1103	1103	665	722	565	552
Production	5950	5887	6000	5800	0	6150
TOTAL Mkt. Yr. Imports	2912	3032	3500	3630	0	3700
Oct-Sep Imports	2912	3032	3500	3630	0	3700
Oct-Sep Import U.S.	2912	3032	0	3630	0	3700
TOTAL SUPPLY	9965	**10022**	10165	**10152**	565	**10402**
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	9200	9200	9500	9500	0	9800
TOTAL Dom. Consumption	9300	9300	9600	9600	0	9900
Ending Stocks	665	722	565	552	0	502
TOTAL DISTRIBUTION	9965	**10022**	10165	**10152**	0	**10402**

PS&D BEANS

PSD Table						
Country	Mexico					
Commodity	Beans			(1000 HA)(1000 MT)		
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2004		10/2005		10/2006	
Area Harvested	1710	1686	1740	1236	0	1680
Beginning Stocks	582	582	424	448	261	59
Production	1200	1219	1220	866	0	1250
TOTAL Mkt. Yr. Imports	52	64	52	130	0	150
Jul-Jun Imports	52	64	52	130	0	150
Jul-Jun Import U.S.	49	60	49	125	0	145
TOTAL SUPPLY	1834	**1865**	1696	**1444**	261	**1459**
TOTAL Mkt. Yr. Exports	10	17	10	5	0	0
Jul-Jun Exports	10	17	10	5	0	0
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1400	1400	1425	1380	0	1390
Ending Stocks	424	448	261	59	0	69
TOTAL DISTRIBUTION	1834	**1865**	1696	**1444**	0	**1459**

PS&D WHEAT

PSD Table						
Country:	Mexico					
Commodity:	Wheat			(1000 HA) (1000 MT)		
	Revised 2004		Preliminary 2005		Forecast 2006	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	07/2004		07/2005		07/2006	
Area Harvested	510	510	650	550		567
Beginning Stocks	743	743	276	293		250
Production	2320	2422	3000	3021		3100
TOTAL Mkt. Yr. Imports	3717	3827	3600	3600		3650
Jul-Jun Imports	3717	3827	3600	3600		3650
Jul-Jun Import U.S.	0	0	0	0		0
TOTAL SUPPLY	6780	**6992**	**6876**	**6914**		**7000**
TOTAL Mkt. Yr. Exports	504	343	500	350		400
Jul-Jun Exports	504	343	500	350		400
Feed Dom. Consumption	100	200	100	200		200
TOTAL Dom. Consumption	6000	6156	6100	6114		6125
Ending Stocks	276	293	276	250		275
TOTAL DISTRIBUTION	6780	**6992**	**6876**	**6914**		**7000**

PS&D RICE, MILLED

PSD Table						
Country:	Mexico					
Commodity:	Rice, Milled			(1000 HA) (1000 MT)		
	Revised 2004		Preliminary 2005		Forecast 2006	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2004		10/2005		10/2006	
Area Harvested	66	62	66	52		52
Beginning Stocks	179	179	129	199		204
Milled Production	200	195	200	181		181
Rough Production	300	279	300	258		258
Milling Rate (.9999)	6667	6667	6667	6667		6667
Total imports	550	490	600	498		500
Jan-Dec Imports	550	490	600	498		500
Jan-Dec Import U.S.	0	0	0	0		0
TOTAL SUPPLY	929	**864**	929	**878**		**885**
TOTAL Exports	0	0	0	0		0
Jan-Dec Exports	0	0	0	0		0
TOTAL Dom. Consumption	800	665	825	674		680
Ending Stocks	129	199	104	204		205
TOTAL DISTRIBUTION	929	**864**	**929**	**878**		**885**

NOTE: All the figures for production, stocks, imports, exports and consumption in this PS&D are calculated on milled basis.

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY & MARKETING

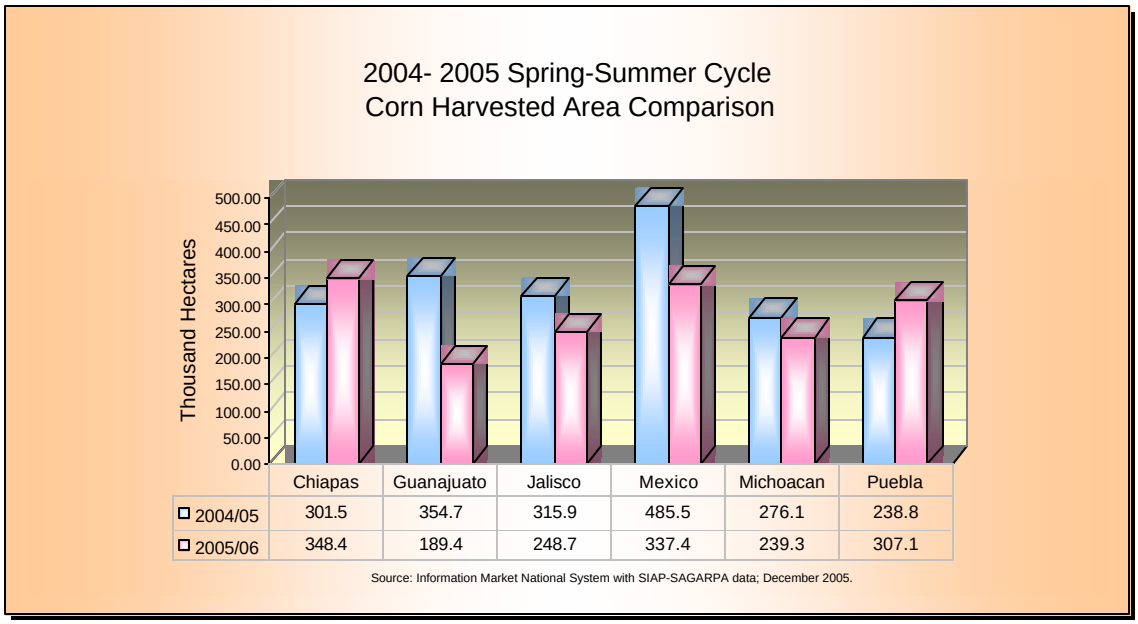
CORN

Production

Total Mexican corn production in MY 2006/07 (Oct/Sept) is forecast to increase to 21.3 MMT (million metric tons), assuming normal weather conditions and an increase in harvested area. Estimated production for MY 2005/06 has recently been revised downward to 20.05 MMT due to official government information. It should be noted that this production level is approximately 2.0 MMT lower than the revised estimated of MY 2004/05. This reduction is attributed to the unfavorable growing condition this past year, which were characterized by dry conditions at planting time, and erratic rains during the growing season.

In Jalisco, for example, preliminary official estimates were that the 2005-spring/summer-corn crop (2.842 MMT) declined by roughly 14 percent compared to the same crop a year earlier. At least part of this decline is attributable to the 47,000 ha of corn production land damaged by the uncharacteristically dry weather. The total damaged area for the 2005 spring/summer crop in Jalisco was 18,000 ha. There was no rainfall during the June 20-July 20 planting season. Moreover, there was less-than-usual rainfall in September, the month when corn needs the most moisture. Approximately 95 percent of Jalisco's crop area is non-irrigated. Similarly, lack of rain in the 2005 spring/summer crop (harvest in fall/winter) in Guanajuato decreased corn production in that state by over 26 percent. Michoacan and Puebla were also marred by bad weather conditions, which reduced the estimated yields. Average yields for the 2005 spring/summer crop in Puebla, for example, declined to 1.416 MT/ha, compared to 1.696 MT/ha the previous year. Corn production in the state of Mexico also declined by approximately 22 percent (362,00 MT) due to a lack of rainfall during the 2005 spring/summer crop cycle. The MY 2004/05 harvested area and production estimates were revised downward reflecting official data issued by the Secretariat of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA).

For the 2005 spring/summer crop, the harvest advance, as of December 31, 2005, was approximately 24 percent lower compared with the same crop a year earlier. The main producing states contributing to this decline were Guanajuato, with 46.6 percent less harvested area, the State of Mexico with 30.5 percent, Jalisco with 21.3 percent, Michoacan with 13.3 percent, and the rest of the country with 30.5 percent. Among the main producing states, only Chiapas and Puebla registered a year-over increase in their 2005 spring/summer harvested area with 15.5 and 28.6 percent respectively. The reason for such a decline in harvested area is because the crop was planted several weeks later than the traditional planting dates because of lack of rainfall. This has therefore caused delays in the harvest season. Furthermore, a number of farmers have also forgone harvesting parts of their land because the severe weather of the past year drastically reduced yields. Below is a graph illustrating the difference in the 2004 vs. 2005 spring/summer harvested area in the main producing states, with data as of December 31, 2005:



In Mexico, two crops of corn are grown annually: a spring/summer cycle and a fall/winter cycle. The six states accounting for approximately 60 percent of the spring/summer corn production are Jalisco, Mexico, Guanajuato, Michoacan, Chiapas, and Puebla. Between 70-75 percent of corn production is grown in the spring/summer cycle, with the harvest taking place from October through December. Since approximately 75 percent of corn produced during the spring/summer cycle is rain fed, the monsoons starting in June are the major source of irrigation. Production under the fall/winter cycle occurs primarily in the states of Sinaloa, Tamaulipas, and Veracruz. This crop is harvested in March through September, and 40 percent of this land is irrigated.

The 2005/06 fall/winter corn production cycle is estimated at 6.0 MMT, slightly higher than the previous year. The forecasted increase in production for this cycle is partially attributable to an increase in planted area. Sinaloa continues to be the main source of commercial white corn in Mexico for the fall corn crop, representing approximately 66 percent of total fall/winter corn production. Practically all of the corn produced in Sinaloa is consumed in other states. Harvest is expected to occur in May and June. At this point in the season, estimated average yield for the 2005/06 fall/winter crop cycle is forecast to be higher than last years 5.2 MT/ha due to the availability of water for irrigation.

Yields continue to vary significantly throughout Mexico, depending in large part on the level of technology used. In Sinaloa, for example, average yields reach levels of between 8.5 and 9 MT/ha because majority of the corn is produced using relatively advanced technology. Assuming normal weather conditions, national average corn yields are forecast to remain practically unchanged from the last few years, at approximately 2.87 MT/ha for MY 2006/07. Due to unfavorable weather conditions, the general quality of the 2005 spring/summer corn crop is reportedly below the average.

According to SAGARPA data, in CY 2005, farm input prices were approximately 15 percent higher than the previous year. Total input costs for corn production in Jalisco for non-irrigated area in the last six years are as follows:

Corn Production Cost Budget State of Jalisco Spring/Summer Crop Cycles (Pesos per Hectare)						
Item	2000	2001	2002	2003	2004	2005
Land Preparation	1,250	500	500	850	1,200	850
Planting	1,450	590	1,289	1,563	1,600	1,724
Fertilizing	1,224	2,410	1,824	2,770	2,265	2,855
Cultural Practices	1,280	768	1,179	680	860	1,540
Control of Diseases	690	915	525	830	575	445
Harvest	1,025	930	680	811	500	750
Miscellaneous	0	0	n/a	350	1,163	1,192
TOTAL	6,919	6,113	5,997	7,854	8,163	9,355

Exchange Rates: February 29, 2000 US $1.00 = 9.43
February 28, 2001 US $1.00 = 9.35
February 26, 2002 US $1.00 = 9.20
March 7. 2003 US $1.00 = 11.23
February 24, 2004 US $1.00 = 11.15
February 16, 2006 US $1.00 = 10.63
Source: SAGARPA/Jalisco Delegation

SAGARPA officials noted that imported items, such as seeds, fertilizers, and herbicides, accounted for the largest percentage increases in 2005 input costs. Production costs vary significantly throughout Mexico, depending in large part on the level of technology used. Corn production costs in Jalisco, however, could be considered to fall within the average cost for Mexico.

Policy

A flat-rate payment of 963 pesos/ha (roughly US $90.59/ha) was given to corn, sorghum, wheat, rice, and dry beans farmers for the 2005 spring/summer crop cycle. This payment plan will be repeated for the 2005/06 fall/winter crop under PROCAMPO, the Mexican domestic agriculture support program. The Government of Mexico (GOM) stated that farmers with production areas of between one and five hectares will receive 1,160 pesos per hectare (approximately US $109/ha). They have yet to announce the payment amount for the 2006 spring/summer crop cycle.

On November 16, 2005, SAGARPA announced in the *Diario Oficial* a support payment for the storage cost ("pignoracion") of white corn in Sinaloa and for the animal feed in Sonora, Jalisco, Nayarit, and Sinaloa. The supports are applied only for the 2004/05 fall/winter crop (harvested in 2005 spring/summer cycle). The objective is to provide monthly payments per ton until month nine of 2006 for the states of Sonora and Sinaloa, and until month four for Jalisco and Nayarit.

SUPPORT TO THE FINANCIAL COST OF STORING WHITE CORN (PESOS/MT)

MONTHS OF CONSUMPTION	1	2	3	4	5	6	7	8	9
AVERAGE FINANCIAL COST (10.03%) PLUS 3 POINTS OVER A PRICE OF $1,300.00 PESOS/MT OF CORN	14.12	21.17	28.23	35.29	42.35	49.41	56.46	63.52	70.58

Exchange rate is approximately U.S.$ 1:00 = 10.63

This program will support a total volume of 1.5 MMT. This announcement also included a notice of a support payment program for the transportation costs of Sinaloa corn consumed in Jalisco and Sonora, with a payment of 107 Pesos/MT (US $ 10.07/ton). Similarly, there is a support of 50 percent of the "PUT" coverage cost. The supports are managed by ASERCA,

which is SAGARPA's decentralized administrative body providing commercial support to farmers.

SAGARPA also announced in November a support program for the transportation costs and/or coastal shipping costs of white corn from Sinaloa for the 2004/05-fall/winter-crop cycle. The objective of this program is to promote the commercialization of white corn in those areas that are physically isolated from the production zones (i.e. Sinaloa). This program will support 1.0 MMT. The breakdown of the supports by ton, mobilization method, and ports and states of destination are as follow:

CARGO TRANSPORTATION	SUPPORT Pesos/MT	PORTS	STATES OF DESTINATION
Coastal traffic and/or railroad	300.00	Coatzacoalcos, Veracruz; Veracruz, Veracruz; Lazaro Cardenas, Michoacan and Salina Cruz, Oaxaca	Veracruz (center-south), Tabasco, Chiapas and Oaxaca.
Coastal traffic and/or railroad	350.00	Progreso, Yucatan	Yucatan, Quintana Roo and Campeche
Railroad and/or Truck transportation	260.00	It does not apply	Baja California, Tamaulipas, Nuevo Leon and Coahuila (Saltillo and Ramos Arizpe).
Coastal traffic or Ferry	350.00	San Carlos, La Paz, Baja California	Baja California Sur
Coastal traffic	260.00	Lazaro Cardenas, Michoacan	Tamaulipas, Nuevo Leon and Coahuila (Saltillo and Ramos Arizpe).

Exchange rate is approximately U.S.$ 1:00 = 10.63

On December 19, 2005, SAGARPA announced in the *Diario Oficial*, a support program for corn, sorghum, wheat, and rice producers in several states for the 2005 spring/summer crop cycle as part of the Target Price Program (see MX3098, MX4033 and MX5022). The following table outlines the breakdown of compensation per metric ton (called "Complementary Income Support") and products to be supported by state:

State	Product	Total Volume Subsidized (MT)*	Payment per Metric Ton (Pesos)**
Aguascalientes	Corn	5,000	300
Baja California Sur	Corn	9,500	350
Campeche	Corn	150,000	300
	Rice	76,000	300
Chiapas	Corn	380,000	350
Chihuahua	Corn	450,000	300
	Corn (Yellow)	140,000	450
Colima	Rice	15,000	400
Coahuila	Corn	2,000	250
	Sorghum	4,000	170
Colima	Corn	4,000	200
Durango	Corn	78,000	250
	Corn (Yellow)	2,000	250
Guanajuato	Corn	400,00	300
	Wheat	5,000	200
Guerrero	Rice	2,000	400
	Corn	10,000	250
Hidalgo	Corn	30,000	250
Jalisco	Rice	5,000	400
	Wheat	4,000	200
	Corn	1,000,000	300
Mexico	Rice	1,200	400
	Corn	25,000	250
Michoacan	Corn	280,000	300
Morelos	Rice	17,000	400
Nayarit	Corn	40,000	300
New Leon	Corn	30,000	300
	Sorghum	30,000	170
Oaxaca	Rice	2,000	400
Puebla	Corn	20,000	250
Queretaro	Corn	12,000	300
Quintana Roo	Corn	2,500	300
San Luis Potosi	Corn	15,000	400
	Sorghum	40,000	220
	Wheat	1,550	200
Sinaloa	Sorghum	425,000	240
	Rice	1,700	400
Sonora	Corn	14,100	350
Tabasco	Corn	3,000	300
Tamaulipas	Rice	2,000	400
	Corn	70,000	400
	Sorghum	375,000	220
Tlaxcala	Corn	4,000	250
Veracruz	Corn	30,000	200
	Sorghum	10,000	220
Yucatan	Corn	6,000	300
Zacatecas	Corn	10,000	300
	Wheat	5,000	200

*Exchange rate is approximately US $1 = MX $10.63

**Corn, unless otherwise specified, refers to white corn only

The government has continued to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns (see MX2037, MX3028 and MX5022). For the 2005 spring/summer crop cycle, for example, SAGARPA officials, through ASERCA, brokered an agreement between Jalisco growers and private buyers to dedicate approximately 240,000 MT of yellow corn (planted on 89,000 hectares) to forward contract purchases. Of this 240,00 MT, the starch industry purchased approximately 90 percent and the animal feed industry purchased the remaining 10 percent

According to private sector sources, at the national level, total yellow corn production was approximately 670,000 MT in the 2005 spring/summer crop cycle. The GOM would like to increase this amount to 1.5 MMT in the next few years. The 2006 spring/summer cycle is expected to reach a production of approximately 1.0 MMT. These increased levels of production are reasonable considering strong yellow corn prices, relative to white corn prices. Reportedly, forward contracting yellow corn with the animal feed sector has not worked well, as this sector readily purchases substitutes such as sorghum, white corn, oat, and cracked corn, depending on prices. Moreover, industry and government sources have acknowledged that Mexican farmers continue to cultivate white corn largely because of tradition and resistance to change, as well as lack of access to seeds. Furthermore, many farmers point out the fact that though domestic yellow corn prices are typically higher than white corn prices (i.e. 1,950 pesos/MT versus 1,800 pesos/Mt – roughly US $ 183/MT versus U.S. $ 169/MT -), yields are consistently lower.

Consumption

MY 2006/07 total corn consumption is estimated at 29.0 MMT, a 2.1 percent increase over last year. The expected increase in total corn consumption reflects an increase in human consumption as well as feed consumption. This has been driven primarily by population growth (1.32 percent), and the continued strong demand by the feed industry. White corn varieties, which are mainly used for human consumption, continue to dominate domestic production. Human consumption should increase in accordance with population growth, and may even increase at a slightly greater rate, as the traditional *nixtamal* process has been switching from corn grain to corn flour. This substitution changes the texture of the tortilla and results in a more appealing end product for the consumer. This is not a trivial business in Mexico, where Mexicans annually consume an average of 104 kilograms of tortillas per capita. The consumption estimates for MY 2004 and MY 2005 remain unchanged

Private sources stated that demand for yellow corn (mainly imported) should continue grow in MY 2006/07, as the feed sector grows. The Mexican feed millers association, for example, expects that production in the livestock sector to increase between 3.5 and 4 percent in CY 2006. The poultry sector continues to be the major consumer of feed corn and sorghum, and is expected to grow by approximately 5 percent in MY 2006 (see MX6011). Other important end-users of yellow corn include the swine and wet-milling industries. In the case of the swine sector, which is the second largest grain consumer in Mexico, it is expected that pork meat production will grow by 2.1 percent in MY 2006 (see MX6010). Domestic feed demand is forecast at 13.2 MMT for MY 2006/07. The feed industry continues to purchase domestic white corn directly from growers in some areas, but this is generally lower quality corn (i.e. it has been rejected by the flour industry), or it is acquired in areas physically isolated from major domestic consumption centers.

It should be noted that the feed consumption figures do not include the consumption of imported cracked corn. Animal feed industry sources have indicated that as the corn TRQ allocation (cupo) process has become more politically sensitive, it has periodically resulted in government delays in cupo allocations. Consequently, some feed importers have been increasing their imports of cracked corn, an item that falls into a separate H.T.S. category, and is neither subject to the NAFTA TRQ nor the politically sensitive cupo allocation process.

Trade

Imports are forecast to grow slightly in 2006/07, driven by population growth, expanding demand from the livestock and starch sectors, and competitively priced imports. Given the importance that weather plays in Mexican agricultural production, wide fluctuations (i.e., 1-2 MMT) can be expected in the import volumes from year to year. The import estimate for MY 2005/06 has been increased due to lower domestic production than previously estimated. The import estimate for MY 2004/05 remains unchanged.

Cracked corn imports have continued to increase due to the strong demand by the livestock sector, and the necessity of avoiding the NAFTA corn tariff rate quota (TRQ) allocation process. In CY 2005, for example, cracked corn imports increased to 2.756 MMT, a 20 percent increase over the previous year. Due to the dynamic performance by the livestock sector, feed users estimate that the imports of cracked corn should continue to increase in MY 2006/07. Moreover, these sources stated that the quality of imported cracked corn has improved, which was one of the main complaints in previous years.

It should be noted that the MY 2006/07 import forecast assumes that the GOM will not enforce any regulations against the use of transgenic corn. Controversy surrounding transgenic corn and biotechnology has periodically arisen during the last two years, as anti-biotech groups unsuccessfully lobbied Congress to include trade-restrictive measures in the national biosafety bill. There are currently no significant trade barriers to biotech crops (such as transgenic corn) or foods derived from biotechnology in Mexico. As the center-of-origin for corn, and because of the historic and cultural significance of corn in Mexico, the biotechnology debate in Mexico has centered on biodiversity and corn as a national patrimony. Anti-biotech activist have used this argument to call for a safeguard against transgenic introgression. Nevertheless, as a signer and ratifier of the Cartagena Protocol on Biodiversity (CPB), and a member of NAFTA, Mexico has steered a delicate course in successfully balancing the competing demands of biodiversity and trade. Due to the passage of a framework biosafety bill in February 2005, which put Mexico in line with its CPB obligations, the GOM must now put into place implementing regulations – a process which will help unify and shore up the current fragmented nature of its biotech regulations (see MX5061).

Mexico issued, through the SE, permits for approximately 8.163 MMT of corn in calendar year 2005 (see table below). However, it should be noted that the total SE allocation of these permits does not necessarily match up with Mexico's final corn import data for CY 2005 because Mexican importers did not use all of these allocations. Preliminary official SE data states that Mexico imported 5.681 MMT of corn in CY 2005.

Corn import Quota Allocations (TRQ) for CY 2005 Under NAFTA	TRQ Allocation	OVER-TRQ Allocation	TOTAL 2005	% Of Total
	1000 Metric Tons			
Corn Flour Millers (Human consumption)	66.100	0.00	66.1	0.81
Snack food	41.545	2.613	44.158	0.54
Breakfast Cereal (Human Consumption)	66.631	36.848	103.479	1.27
Starch Industry	1,176.385	892.864	2,069.249	25.35
Manufacturers Livestock (feeders, (growers & feed millers)	1,829.123	4,050.644	5,879.767	72.03
Total	3,179.784	4,982.969	8,162.753	100.00

Note: The minimum Tariff Rate Quota for U.S. corn under NAFTA was 3.460 MMT for 2005.
Source: Secretariat of Economy

The structure of the 2006 NAFTA TRQ (3.564 MMT for the United States) will continue as in 2005 with direct allocations to importers and industries by SE, through the administrative procedures that were published in Mexico's Federal Register – "*Diario Oficial*" (see MX5022 and MX4033). Industry sources noted that the publication of these official rules has resulted in more transparency for industry and importers, as well as allowing the latter to better plan their corn purchases.

Stocks

Mexico's ending stocks are forecast to decline to approximately 3.515 MMT in MY 2006, thereby maintaining a low stock-to-use ratio. The estimated MY 2004 ending stocks were revised downward, due to lower-than-previously estimated domestic production. This reduction in the carry over of MY 2004 affected the ending stocks estimate of MY 2005, which was also reduced.

Policy

Since NAFTA was implemented on January 1, 1994, the over-quota bound tariff on corn has been reduced from 206.4 percent to 36.3 percent, and the TRQ has increased from 2.5 MT to 3.515 MMT for CY 2006. The United States has eliminated the 0.2 cents per kilogram tariff on corn imported from Mexico. At the same time, Mexico has converted its import licensing system to a transitional tariff rate quota for the U.S. and Canada. The TRQ will remain in effect until 2008, with a 3-percent annual increase in quantity.

Despite the agreed upon NAFTA bound tariffs for white and yellow corn, the Mexican Government has customarily issued additional import permits beyond the amount required by the free trade agreement. Usually these additional imports were subject to minor tariffs (roughly 1-2 percent on yellow corn, and 2-3 percent on white), rather than the NAFTA bound tariffs. In the last three years, however, the Mexican Lower House decided that over-quota imports of white corn would be subject to the import tariffs specified by NAFTA (72.6 percent in 2004, 54.5 percent in 2005, and 36.3 in 2006). Although both correspond to NAFTA bound tariffs, this decision is a marked departure from past practices, as there is a significant difference between the current bound and the previous applied tariffs. Nevertheless, this tariff is NAFTA consistent and will apply to white corn, even in the case of a shortage (see MX4033 and MX5022).

In the case of yellow corn, which comprises approximately 97 percent of all U.S. corn imports into Mexico, the Lower House decided to leave the determination of the over quota amount

to the Ministries of Economy and Agriculture – two ministries which have traditionally supported very low applied tariffs for corn, and who have usually administered the import permit allocation process based on national supply conditions and the marketing of domestic corn (see MX 5022). As mandated by the Lower House in the 2006 Budget Law, the GOM is still obligated to announce what the out-of-quota import tariff for yellow corn in CY 2006 will be. Industry sources estimated, however, that it will be 1 percent, as was imposed in CY 2005.

The United States will remain the main supplier of corn to Mexico for the foreseeable future. As credit continues to be tight in Mexico, credit guarantee programs such as GSM-102 will remain useful tools to promote consumption of U.S. corn in Mexico. With the full liberalization of U.S.-Mexico corn trade on January 2008, U.S. corn exports should increase even further, as corn demand in Mexico is expected to grow faster than domestic corn production.

Sorghum

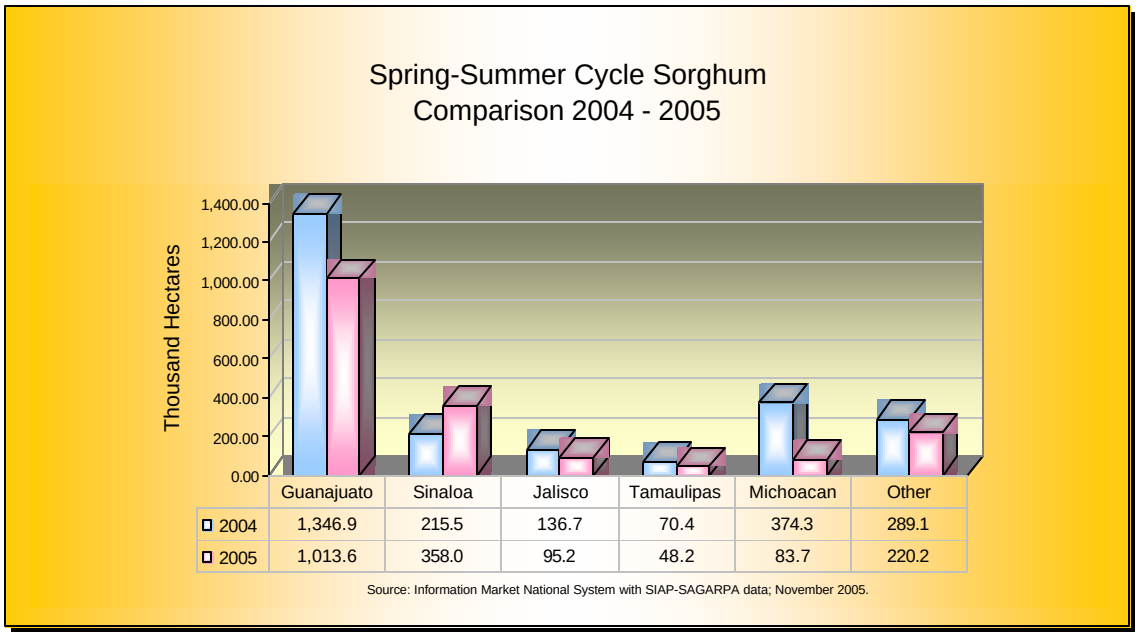
Production

Sorghum production in Mexico for MY 2006/07 (October/September) is forecast to increase by approximately 6 ppercent to 6.15 MMT. This increase is due to an expansion of planted area driven by strong demand from poultry producers. Reportedly, poultry producers are anticipating an increase in demand for their products as a result of effective marketing campaigns and continued improvement in product quality. Nevertheless, due to revised SAGARPA data, and preliminary information from private sources, USDA/Mexico estimates for sorghum production and harvested area for MY 2004/05 and MY 2005/06 were adjusted downward.

According to official preliminary information, adverse weather conditions caused sorghum production in the main producing states to decline by over 1.5 percent in the 2005 spring/summer crop compared to the revised estimate of the same crop a year earlier. In Guanajuato, for example, the major sorghum producing state for the spring/summer crop cycle, preliminary information indicates that 2005 spring/summer sorghum production reached 1.260 MMT, approximately 21.7 percent lower than the 2004 spring/summer crop. This was mainly due to the fact water for irrigation was not widely available, well evidenced by the fact that the dams in this state registered low water levels throughout the growing season. Similarly, Jalisco and Michoacan were adversely impacted by unfavorable weather conditions, which decreased the yields of this crop cycle beyond what was expected. As a result, crop quality is reportedly average to bad. It should be noted that the lower output was also due to a decrease in harvested area.

Sorghum production is spread throughout the country, with the largest producing states in 2005 being Guanajuato, Tamaulipas, Sinaloa, and Michoacan. The states of Guanajuato, Michoacan, and Jalisco, in West Central Mexico, make up the "Bajio" region, where the bulk of the fall harvest is produced. For MY 2005/06, official sources estimate that the Bajio region will account for approximately 31.4 percent of total production, while 30.4 percent should be produced in Tamaulipas.

Approximately 11 percent of the fall/winter crop is irrigated, while nearly 24 percent of the spring/summer crop is irrigated. Traditionally, feed manufacturers have readily purchased the Bajio sorghum crop because of its quality and proximity to demand centers. At the same time, because of transportation and quality issues, feed millers have continued to be less aggressive in purchasing the Tamaulipas fall/winter crop.
The graph below illustrates the difference in the 2005 vs. 2004 spring/summer crop production in the main producing states, with data as of November 30, 2005:



SAGARPA data states that in CY 2005, farm input prices for sorghum were only 1.4 percent higher than the previous year. Total input costs for sorghum production in Jalisco for non-irrigated areas in the last five years are as follows:

Sorghum Production Cost Budget State of Jalisco
Spring/Summer Crop Cycles
(Pesos per Hectare)

Item	2001	2002	2003	2004	2005
Land Preparation	600	600	500	600	850
Planting	1,024	968	1,088	1,068	1,088
Fertilizing	1,216	1,688	2,098	2,135	2,363
Cultural Practices	698	848	900	901	948
Control of Diseases	840	1,340	1,356	1,498	1,365
Harvest	650	595	710	858	756
Miscellaneous	1,071	411	319	1,213	1,017
TOTAL	6,099	6,450	6,971	8,273	8,386

Exchange Rates: February 28, 2001 US $1.00 = 9.35
February 26, 2002 US $1.00 = 9.20
March 7. 2003 US $1.00 = 11.23
February 24, 2004 US $1.00 = 11.15
February 16, 2006 US. $1.00 = 10.63

Source: SAGARPA/Jalisco Delegation

According to SAGARPA sources the item Miscellaneous includes the cost of credit, insurance, and technical assistance.

Production Policy

A flat-rate payment of 963 pesos/ha (roughly US $90.59/ha) was given to sorghum farmers for the 2005 spring/summer crop cycle, and will be repeated for the 2005/06 fall/winter crop under the domestic supports program, PROCAMPO. The GOM stated that farmers with production areas of between one and five hectares would receive 1,160 pesos/ha

(approximately US $109/ha). However, GOM officials have yet to announce the amount they will pay farmers for the 2006 spring/summer crop cycle. In addition to PROCAMPO payments, on December 19, 2005, SAGARPA announced in Mexico's *Diario Oficial*, a support program for sorghum producers in several states for the 2005 spring/summer crop cycle as a part of the Target Price Program (see MX5022). The breakdown of support per metric ton (called "Complementary Income Support"), and products to be supported by state, is detailed in the corn policy section.

Consumption

Projected sorghum consumption for MY 2006/07 is expected to increase by 300,000 MT to 9.9 MMT. This increase is primarily due to increased demand from the livestock sector, and roughly similar to the expected growth in feed consumption in 2006 (between 3.5 and 4 percent). The outlook for the poultry sector, for example, continues to be very optimistic for 2006 (see MX6011). Traders and buyers indicate that if the price ratio between corn and sorghum is more favorable for sorghum during MY 2006/07, it should encourage higher levels of sorghum consumption, and slightly decreased corn consumption for animal feed, mainly imported cracked corn. Industry sources indicate that the price of sorghum must be about 85 percent of the price of corn for the poultry industry – the primary industrial consumer of corn and sorghum – in order to cause a switch to sorghum. Sorghum consumption estimates for MY 2004/05 and 2005/06 have remained unchanged.

Trade

Imports for MY 2006/07 are forecast to increase to 3.7 MMT due to continued strong demand from feed millers. In addition, sorghum demand is likely to increase if sorghum prices become less expensive relative to corn. The import estimate for MY 2005/06 has been increased 3.7 percent to 3.63 MMT due to lower-than-previously estimated domestic production. Also, the MY 2004/05 import estimate has been increased to 3.032 MMT based on final official trade figures issued by SE. According to industry sources, private feed millers continue to keep approximately 6 weeks of feed in stock at any given time.

Stocks

Ending stocks are forecast to decline by nearly 9 percent because of strong domestic feed demand anticipated in MY 2006/07. The estimate of MY 2004/05 and MY 2005/06 ending stocks have been raised and reduced, respectively, based on slightly higher imports in MY 2004, and lower production than previously expected in MY 2005.

BEANS, DRY EDIBLE

Production

Dry edible bean production in Mexico is expected to rebound from 866,000 MT in MY 2005/06 (October/September) to 1.250 MMT in MY 2006/07 because of greater planted area, and with the assumption of more favorable weather conditions. FAS/Mexico revised the MY 2005/06 production estimate sharply downward because of the lack of rainfall and crop disease problems in the main production areas. Similarly, MY 2004/05 production estimates and harvested area were revised downward, and then upward, to reflect the final figures issued by the GOM (issued by SAGARPA). FAS/Mexico uses official Mexican government statistics for historical purposes.

According to official preliminary information, dry bean production in the main producing states decreased by over 36.6 percent during the 2005 spring/summer crop cycle, compared with same crop a year earlier. In Zacatecas, the major dry bean producing state in Mexico,

preliminary information indicates that 2005 spring/summer crop reached 173,000 MT, approximately 53 percent lower than the 2004 spring/summer crop. Roughly 70 percent of this production is comprised of black bean varieties, 22 percent are clear varieties (Flor de Mayo and Flor de Junio), and the rest is the "Bayo" variety. SAGARPA officials stated that 611,516 ha were planted, which is greater than the original intended beans plantings of 530, 330 ha. The increased planted area is related to unseasonably late rainfalls, which caused a shifting of hectares from corn to dry beans. The drought this past year also created a favorable environment for screwworm, which damaged nearly 50,000 ha. Late rains caused the planting of the crop to be delayed by several weeks from the normal planting period of early to mid-July. As result of the lack of rain, yields were sharply reduced. SAGARPA officials pointed out that the statewide average yield was approximately 300 kg/ha, which equates to gross revenue of $180 per/ha at current bean prices of 6 pesos/kg. For the sake of comparision, yields in the 2004 spring/summer crop cycle reached 630 kg/ha.

For Durango, the second most important dry bean state, official sources reported that they are also experiencing a similar situation as in Zacatecas. The state production for the 2005 spring/summer crop cycle was 90,510 MT, 46 percent lower than the previous year. Approximately 70 percent of the total production is Pinto varieties, 25 percent black varieties, and 5 percent clear varieties (Flor de Mayo and Flor de Junio). The average yield in Durango is estimated at 400 kg/ha, compared to 565 kg/ha the same season a year ago. SAGARPA sources estimated that it was the worst drought in 80 years in this state.

In Chihuahua, where production was also affected by drought, SAGARPA reported a total production of 49,448 MT for the 2005 spring/summer crop cycle, most of which is Pinto varieties (approximately 98 percent). SAGARPA sources noted the programmed plantings were for 125,000 ha, but due to the drought and the GOM program to convert dry bean plantings to other crops (see MX 5022), only 75,650 ha were planted. Of this area, 72 percent is non-irrigated. The remaining 20,636 ha are irrigated. It should be noted that the irrigated production area is dominated by the Mennonites, who are sophisticated growers that use hybrid seed, automated irrigation, and advanced agronomic practices. Of the acreage that shifted from dry beans to forage crop, SAGARPA officials estimate that most would not return to planting dry beans next year.

For the 2005/06 fall/winter crop cycle, Nayarit reports a bean planted surface of 62,561 ha, with an expected production of 91,149 MT. Of this production, 70 percent are Jamapa Black. The rest of the production corresponds to colored beans (Azufrados, Mayocobas, and other clear and pink varieties). Reportedly, sowing conditions are excellent, the weather is favorable, and farmers expect to realize their intended plantings and yields. Harvesting should begin in the first two weeks of March.

In Sinaloa, SAGARPA reports a total bean planted area of 100,341 ha, which is 17 percent greater than SAGARPA planned programming. Production is expected to reach 181,725 MT in this state. Harvesting began in February and is expected to end in March. Growers have experienced some weather problems because of low temperatures during the nights, and heat during the days, which has caused several plant disease problems. SAGARPA sources estimate a reduction in the yield from 1.8 MT/ha to 1.6 MT /ha, due to these weather problems

Weather continues to be the predominant production factor, given that over 80 percent of Mexico's bean production areas are non-irrigated. The overall yield for the MY 2006/07 is forecast at about 0.744 MT/ha, which is higher than the average obtained in MY 2005/06. The dry beans harvested during the 2005 spring/summer crop cycle are reportedly of low quality due to the previously mentioned drought.

SAGARPA data shows that in CY 2005 the cost of farm input prices in Zacatecas decreased 8 percent. This reduction is due to the fact that growers have reduced their usage of certified seed, and have practically entirely ceased using fungicides to control diseases. Total input costs for dry beans production in Zacatecas for non-irrigated areas during the last two years are as follows:

Dry Beans Production Cost Budget State of Zacatecas Spring/Summer Crop Cycles (Pesos per Hectare)		
Item	2004	2005
Land Preparation	600	850
Planting	1,068	1,088
Fertilizing	2,135	2,363
Cultural Practices	901	948
Control of Diseases	1,498	1,365
Harvest	858	756
Miscellaneous	1,213	1,017
TOTAL	8,273	8,386
Exchange Rates: February 24, 2004 US $1.00 = 11.15 February 16, 2006 US. $1.00 = 10.63 Source: SAGARPA/Zacatecas Delegation		

Production Policy

PROCAMPO payments for the fall/winter 2005/06-crop cycle will remain at 963 pesos/ha (roughly US $90.59/ha). Farmers with production areas between one and five hectares will receive 1,160 pesos/ha (approximately US $109/ha). The GOM has yet to announce the payment level for the spring/summer 2006 season.

The GOM has continued with the program to support dry bean farm-gate prices established in CY 2003 in Zacatecas and Durango (see MX 5022). This year the program consisted of paying 5.5 pesos per/kilo initially, and 0.5 pesos/kilo once the beans were sold by SAGARPA. The dry beans are delivered to private warehouses, and the initial cost (i.e. 5.5 pesos per kilo) is paid in full to the producer. The remaining payment is issued once the beans are commercialized. Private sources stated, however, that growers opted to sell at lower prices for cash flow reasons.

Additionally, the GOM, through its Bean Reorganization Program (see MX 5022), has continued to support bean farmers by offering certified seed, subsidies for the adoption of improved machinery/technology (i.e., combines and packing plants), reduced diesel prices, and PROCAMPO supports. Currently, the GOM has been focusing on black beans in Zacatecas through a program of distributing certified T-39 black bean seed imported from Michigan. However, private sources have stated that the Michigan beans are not working well in the state because conditions are drier than in Michigan.

The GOM is trying to move marginal bean areas into other products such as grains and grasses with the conversion program (see MX 5022). The conversion program has realized some success in Zacatecas. For example, in 2004, 66,626 ha of oats and 14,884 ha of corn were planted when SAGARPA paid 100 percent of seed cost. In 2005, SAGARPA paid 75 percent of the seed costs and an additional 53,852 ha of oats and 6,445 ha of corn were planted. In addition, 162 ha were converted to pastureland. SAGARPA will pay 35 percent of the seed cost in 2006. Reportedly the GOM has a submitted proposal to Congress to continue the subsidy past 2006.

In Durango the GOM is urging farmers to use certified "Pinto Villa" and new "Pinto Saltillo" seed. It is also supporting bean production by funding the construction of public cleaning operations strictly for Pinto beans. In Chihuahua, the GOM is converting marginal ground to forage crops. The main objective is to promote production where bean crops are most profitable. Should the programs continue, the GOM expects that the remaining producers will be competitive, and that those shifting to other crops will benefit as well. It should be noted, however, that private sources stated that there are several obstacles to this evolution. Since most bean farmers are subsistence producers with only 5-10 ha under cultivation, these farmers grow beans as much for traditional reasons as for economic ones. These farmers are also constrained by a lack of education and financial tools. SAGARPA officials consider that any farmer with fewer than 80 ha cannot afford the proper equipment, nor would they be able to invest in certified seed and chemicals.

Regarding the publicly funded cleaning centers in Zacatecas (see MX 5022), the operation in Calera has been constructed, but is not yet operational. The facility initially was a corn handling plant. It was adapted by the GOM to handle beans in an effort to improve dry bean production and quality. The GOM installed expensive high quality equipment, but private sources note that the equipment was not properly installed, and does not work effectively. For instance, the bean seizer, which is unnecessary, tends to pull the cuticles off of the beans. There are also a number of problems with how the trucks load and unload. The un-operational plant is currently storing 10,000 MT of beans from the 2002 crop.

Consumption

The forecast for dry bean consumption in MY 2006/07 is 1.390 MMT, an increase of approximately 1 percent. This increase is primarily driven by population growth. This office revised downward the MY 2005/06 consumption estimates. The revised estimation was partially due the increasing purchasing power of middle-income consumers who switched from dry beans to meats and other relatively more expensive protein sources. At the same time, lower income consumers increased consumption, but not enough to offset the decrease by middle-income consumers. Lower income consumers are likely to demand higher quality beans than higher income consumers, simply because they consume so many and have more highly defined tastes and preferences. Thus, despite the fact that lower income consumers cannot afford meat, they do have the ability to purchase high quality beans.

Trade

Imports are forecast to increase to 150,000 MT in MY 2006/07. This is primarily based on the need to rebuild stocks. Carryovers stocks are expected to decrease significantly because of lower than expected production in MY 2005/06. This office adjusted import estimates upward for MY 2005/06 due to lower-than-previously estimated domestic production. Import estimates for MY 2004/05 have been revised upward based on end-of the year data from the SE. Similarly, export estimates for MY 2004/05 and MY 2006/07 have been revised upward and downward, respectively, based on SE's official data and trade sources.

Stocks

The ending stocks estimate for MY 2005/06 has been decreased to 59,000 MT because of lower than expected domestic production. For MY 2006/07, ending stocks are forecast to increase slightly. Many of the beans in storage are of extremely low quality, and will not be commercialized, despite the shortage in domestic production. This office has revised slightly upward estimated stocks for MY 2004/05, reflecting the most recent information.

Policy

On January 1, 1994, in accordance with the NAFTA, Mexico converted its import-licensing regime for the United States and Canada to a transitional tariff-rate quota (TRQ). The TRQ grows at a 3-percent annual rate over the 15-year transition period, which started in 1994 and will end in 2008. In CY 2006, the United States is able to export 71,288 MT duty-free to Mexico. The over-quota tariff for CY 2006 is 23.5 percent. Since 1994 the over-quota tariff for dry beans has gone from 127.8 percent to 23.5 percent. The remainder of the tariff will be phased-out over the rest of the transition period.

During CY 2006 Canada has duty-free access for 2,138 MT of dry beans. The structure of the over-quota tariff phase-out, and growth in the quota amount, is the same as for the United States. At the same time, the U.S. has eliminated its tariff on imported dry beans from Mexico as of January 1, 1994. The immediate phase-out of the U.S. tariff on dry bean imports has had little impact on U.S. production due to the fact that Mexican exports are rather low.

WHEAT

Production

Total Mexican wheat production for MY 2006/07 (Jul-Jun) is forecast at 3.1 MMT, 2.6 percent greater than the previous year's revised estimate. This increase is due to a slight expansion in area planted in Mexico's bread wheat producing regions, and adequate water availability for irrigation in Mexico's wheat producing region in the northwest, namely the states of Sonora and Baja California. The bread wheat producing states of the central plateau in Mexico also report adequate irrigation water availability, thus improving production expectations for MY 2006/07. Mexican wheat production for MY 2005/06 is also revised upward from our previous estimate due to increased water supply. Production for MY 2004/05 is revised upward from our previous estimate, reflecting official data.

For MY 2006/07, wheat farmers in Sonora and Baja California are expecting to negotiate with the federal government a reference or negotiated price approximately 10 percent higher than the price paid for the MY 2005/06 and MY 2004/05 crops. During these years, federal prices averaged $1,945 pesos/MT (USD$ 182.97), broken down as follows; reference price of $1,600 pesos/MT (USD $150.52), plus $200 pesos/MT (USD $32.97) in federal government support, and $145 pesos/MT (USD $13.64) in state government support, depending on the variety and quality of the wheat. For bread wheats the reference price for the same periods as above were $1700 pesos/MT (USD $ 159.92) plus the federal and state supports, totaling $2045 pesos/MT (USD $ 192.38).

The following two tables show year-over production costs for Sonora and Baja California, two major wheat-producing states. In both cases, input costs remained stable and wheat prices increased slightly. However, because yields fell so significantly in both states, profits were down 40-50 percent for wheat farmers.

Wheat Production Cost Budget State of Sonora (Pesos per Hectare)			
Item	**Fall/Winter 04/05**	**Fall/Winter 05/06**	**% Change**
Land Preparation	1,375.00	1,410.00	2.55
Planting	859.00	872.00	1.51
Fertilizing	2,228.00	2,268.00	1.80
Irrigation	2,725.00	2,782.00	2.09
Cultural Practices	160.00	160.00	0
Control of Disease	1,999.00	1760.00	(13.58)
Harvest	963.00	984.00	2.18
Other Costs	537.00	549.00	2.23
Total	10,846.00	10,785.00	0.09
Average Yield	6.5	6.0	(8.33)
Price	1,875.00	1,945.00	3.73
Gross Income	12,187.00	11,670.00	(4.43)
Total Cost	10,846.00	10,785.00	0.09
Profit	1,341.00	885.00	(51.53)
Cost of Production/MT	1,668.61	1,797.50	9.43

Exchange Rate (February, 2006) US $1.00 = 10.63 pesos

Wheat Production Cost Budget State of Baja California (Pesos per Hectare)			
Item	**Fall/Winter 04/05**	**Fall/Winter 05/06**	**% Change**
Land Preparation	1,259.87	1,296.00	2.87
Planting	672.86	688.00	1.02
Fertilizing	2,173.25	2,264.00	4.18
Irrigation	1,275.43	1,292.00	1.30
Cultural Practices	N/A	N/A	N/A
Control of Disease	1,128.00	1,191.00	5.59
Harvest	1,179.38	1,206.00	2.26
Other Costs	903.96	943.00	4.32
Total	8,592.75	8,880.00	3.34
Average Yield	6.5	5.7	(14.04)
Price	1,805.91	1945.00	7.70
Gross Income	11,738.41	11,086.50	(5.88)
Total Cost	8,592.75	8,880.00	3.34
Profit	3,145.66	2,206.50	(42.56)
Cost of Production/MT	1,321.96	1,557.89	17.85

Exchange Rate (February, 2006) US $1.00 = 10.63 pesos

Overall harvested area for wheat in MY 2006/07 is forecast to increase by 3.09 percent, to around 567,000 hectares. This estimate is slightly higher than our revised estimate for MY 2005/06. The increase reflects the tendency of many wheat farmers in the state of Sonora to return to growing wheat after having planted vegetables, saffron, and citrus fruits on their lands during the drought years. Harvested area for MY 2004/05 remains unchanged and reflects official data.

Consumption

Due to Mexico's continued growth in preferences among consumers of all ages and economic status for wheat-baked goods, for MY 2006/07 post forecasts a slight increase over the previous year's revised estimate. The MY 2004/05 estimate has been revised upward to reflect official data.

Trade

Imports for MY 2006/07 are forecast at 3.65 MMT, slightly higher than the previous year's revised estimate of 3.60 MMT. This increase is largely driven by shifts in tastes and preferences towards bread products in Mexico, particularly amongst the younger generation. Despite increased imports, greater demand has also fueled increased production of bread wheat in central Mexico. Imports for MY 2005/06 remain unchanged from our previous estimate. Imports for MY2004/05 are revised upwards reflecting official data. Mexican wheat exports, forecast at 400,000 MT, are mainly durum wheat from the states of Sonora and Baja California. MY 2004/05 exports are revised downward reflecting official data. As usual, price competitiveness during MY 2006/2007 will play a large role in deciding the source of imports. For the past several years, Mexico has imported wheat from only the U.S. and Canada. This, again, will likely be the case in the future. The availability of GSM-102 credit guarantees continues to be an important incentive for Mexican millers to purchase U.S. wheat, even though Canada normally offers similar terms of credit.

Stocks

My 2006/07 ending stocks are forecast at 275,000 MT. Because of irregular growth and quality in the production of bread quality wheat, the industry is recognizing the need to maintain adequate year-to-year stocks. For much of the same reason, ending stocks in MY 2005/06 have been revised downward to 250,000 MT. MY 2004/05 ending stocks have been revised upward reflecting official data.

Marketing

In order to further stimulate wheat consumption in Mexico, market development activities should focus on consumer use of wheat products (e.g., bread, cookies, etc.). Also, in order to avoid trade disruptions, it is important to provide information to government personnel in charge of regulatory functions so that grades, standards, and phytosanitary regulations do not impede wheat trade between the two countries.

RICE

Production

Rice production for MY 2006/07 is forecast to remain unchanged from the previous year's revised estimate of 181,000 MT (milled basis). As with the previous year, because of competitive imports and low levels of government support, much of the former rice producing land in Veracruz and Campeche was shifted to more profitable crops, or left idle. For the same reason, production for MY 2005/06 is revised downward by 9.5 percent from our previous estimate. Rice output for MY 2004/05 is revised downward reflecting official data.

For MY 2006/07, area harvested is forecast to remain unchanged from the previous year's revised estimate due to the continued expectation of competitively priced imports from the United States, and low levels of government support to Mexican producers. Harvested area

for MY 2005/06 is revised downward to 52,000 hectares, from 66,000 hectares. For MY 2004/05 harvested area is revised downward reflecting official data.

Consumption

One of the principle plans of Mexican rice producers and industrialists is to increase the consumption of rice in Mexico, which currently stands at 5.5 kilograms per capita per year. This is a stark contrast to the rest of Latin America, where per capita consumption is generally around 20 kilograms per year. In some countries, like Costa Rica and Peru, annual per capita consumption reaches 40 and 62 kilograms.

The Mexican Rice Council (CMA), along with the National Federation of Rice Producers (FENAPA), is not only working hard to increase rice consumption in Mexico to at least 10 kilograms per capita, but also working on getting consumers to identify and prefer nationally produced rice through promotional efforts. Factors such as tastes and preferences in the Mexican market, as well as rising incomes, are influencing rice consumption and import levels. In 2005, CMA and the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) initiated a campaign aimed at increasing rice consumption through advertisements in the press, radio, and local television. This campaign will be continued through 2006, and possibly for several more years if the budget permits.

In MY 2006/07, rice consumption is forecast at 680,000 MT, an increase of 0.9 percent over the previous year's revised estimate. This slight increase is due to competitive prices, as well as continuous marketing efforts by U.S. Rice Federation and the U.S. Rice Producers Association. Rice is a food staple for the majority of the lower income population in Mexico. Nonetheless, MY 2005/06 consumption estimates have been revised downward from our previous estimate reflecting more accurate and current data from the industry, and because this year we converted our data from paddy rice to milled rice. Consumption for MY 2004/05 has also been revised downward reflecting official data and the conversion of paddy rice to milled rice. The ratio used for converting paddy into milled rice is 70 percent.

Trade

Imports in MY 2006/07 are forecast to increase based on insufficient domestic production and a slight increase in consumption. MY 2005/06 rice imports are revised downward to 498,000 MT, from the previous estimate, due to the conversion of paddy rice to milled rice in the PS&D table, and the need to maintain beginning and ending stocks at an adequate level. Imports for MY 2004/05 are revised downward reflecting official data and the conversion of paddy rice to milled rice in the PS&D table. The ratio used for converting paddy into milled rice is 70 percent.

Stocks

Ending stocks for MY 2006/07 are expected to increase slightly from the previous year's revised estimate due to the need to maintain stocks at an adequate level. Since domestic production was unable to meet current demand, mills will continue to look to imports for supplies, especially during the traditionally short supply months from April to July, which are the gap months between Mexico's two rice crops. Ending stocks for MY 2005/06 are revised upward to 204,000 MT due to stock building requirements, and as a result of the adjusted figures in consumption with the conversion of paddy rice to milled rice in the PS&D table.

Policy

In June of 2002 Mexico imposed antidumping duties on U.S. white long grain rice. The U.S. appealed the antidumping finding to a WTO panel, and in their appeal identified numerous

apparent violations of Mexico's obligations under the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (Antidumping Agreement), the Agreement on Subsidies and Countervailing Measures (SCM Agreement), and the General Agreement on Tariffs and Trade 1994 (GATT 1994). These violations relate to various procedures and methodologies Mexican authorities used in the rice anti-dumping investigation. In particular, the WTO proceeding addressed issues such as Mexico's choice of data used in the investigation, its methodology for determining whether the Mexican industries were injured by reason of dumped imports, its failure to terminate the investigation when it found that no dumping or injury occurred, its calculations of the dumping duty rates applied to U.S. exports to Mexico, and its non-transparent determinations. The WTO issued its preliminary finding in favor of the United States and notified Mexico of this decision in March 2005. Mexico's Secretariat of Economy submitted an appeal on July 20, 2005 to the WTO's ratification of its preliminary ruling on June 6, 2005. In November of 2005 the WTO rejected Mexico's appeal and ordered that the SE comply with the ruling. Mexico now has two options, either accept the WTO's final ruling and remove the compensatory duties, or notify the WTO that they will submit new or readjusted data to the original claim and hope for a favorable ruling from the WTO.

Marketing

Marketing promotion programs for U.S. rice through the USA Rice Federation/Mexico City Office and US Rice Producers Association, continue opening niche markets for U.S. rice in the supermarket, hotel, and restaurant trade. Prospects exist in the short and medium terms for increased rice sales. This increased demand is fueled by population growth, and the attractiveness of adding additional protein to the diet at affordable prices. The rapid growth in supermarket chain stores, fast food restaurants, and the tourist sector, all present opportunities for market growth.

Marketing activities should continue to center upon branded promotions and other avenues for creating niche markets for U.S. specialty and quality rice. In addition, given the overall low level of rice consumption in Mexico, it may also be strategically beneficial to provide nutritional information on rice to encourage more healthy diets and increased rice consumption in lower income areas of the country.